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Margin Debt Reaches New High

Investors borrowed a record \$722.1 billion against their investment portfolios

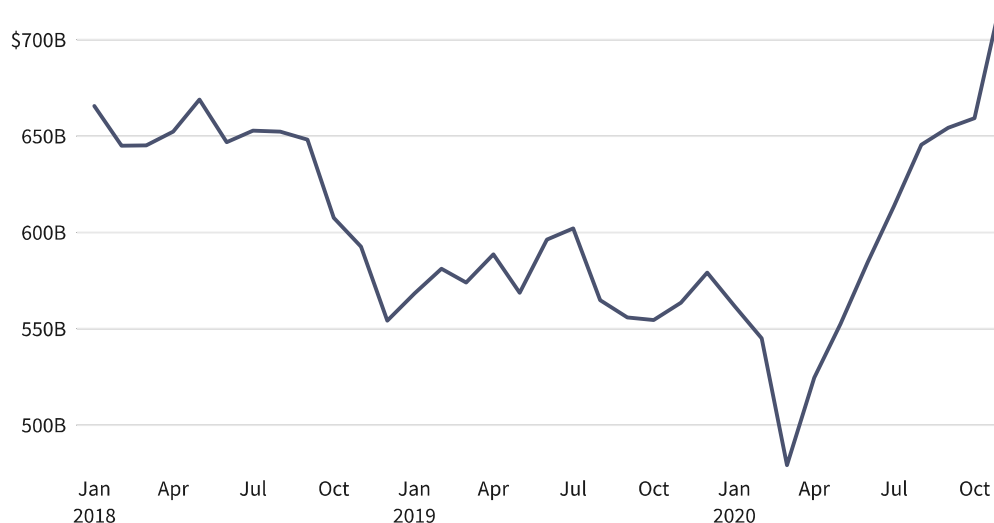


By [ELANA DURE](#) | Updated Dec 28, 2020

Margin balances have reached a new record high as a widening class of affluent Americans borrowed against their portfolio investments to buy more stock. ^[1]

[Margin debt](#) has reached the highest point in two years as investors borrowed a record \$722.1 billion against their investment portfolios through November, topping the previous high of \$668.9 billion from May 2018, according to the Financial Industry Regulatory Authority (FINRA). ^[2] This amount is a 28% increase since the same time last year and is up nearly 10% from \$659.3 billion in Oct. 2020. The surge in risk-taking indicates that investors were euphoric as COVID-19 vaccines neared.

Debit Balances in Customers' Securities Margin Accounts



Source: [Financial Industry Regulatory Authority \(FINRA\)](#)

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These investors are chasing bigger gains and exposing themselves to potentially devastating losses through riskier plays, including concentrated positions, trading options, and leveraged exchange-traded funds (ETFs). The milestone is not a good sign for the stock market since margin debt records often precede market volatility, as seen in 2000 and 2008.

The S&P 500 has jumped nearly 67% since its lowest point on March 23 and dozens of stocks have rocketed even higher. Tesla is up 685% year-to-date after joining the S&P 500, while Zoom Video Communications has gained 429% so far this year as remote work became the norm due to the coronavirus pandemic. Meanwhile, COVID-19 vaccine maker Moderna is up 516% for the year.

Investors who use margin debt pledge their securities in exchange for loans from brokers to buy more securities or sell short a stock. [Regulation T](#) says investors can only take on margin debt of 50% of their account balance, though the typical margin requirement is 25%.

However, investors can get into trouble if their collateral falls below a certain threshold and triggers a [margin call](#) — one of our [most popular terms in 2020](#), which spiked in March as the stock market was cascading. Once there is a margin call, investors must decide whether to put up more money or sell the securities underlying the loans.

Some investors use their margin balances to trade [options](#). In 2020, a record number of options contracts have traded with an average 29 million options trading hands each day this year, a 48% increase from 2019, according to Options Clearing Corp. Traders can obtain options to [hedge](#) their portfolios from stock

While these strategies provide opportunity for major gains, they also provide opportunity for major losses. Those who [overextend](#) themselves can be burned. Many investors lost money this year when oil prices turned negative and shares of Eastman Kodak took a sharp fall after news that its chairman received stock options one day before the announcement of a government loan to help the company make drugs.

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1. The Wall Street Journal. "[Investors Double Down on Stocks, Pushing Margin Debt to Record](#), https://www.wsj.com/articles/investors-double-down-on-stocks-pushing-margin-debt-to-record-11609077600?mod=hp_lista_pos2." Accessed Dec. 28, 2020.
2. FINRA. "[Margin Statistics](#), <https://www.finra.org/investors/learn-to-invest/advanced-investing/margin-statistics>." Accessed Dec. 28, 2020.

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